

Real Resources Inc.

Wingspear Business Reference Library
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2G6



2001

Annual Report

Real Resources Inc. is a Calgary based oil and gas company active in the exploration, development and production of crude oil and natural gas in Western Canada. The Company has grown through exploration, development and strategic acquisitions.

Contents

1	Highlights
2	Message To Our Shareholders
7	Statistical Review
11	Operations Review of Core Properties Product Marketing Report of Management on Oil and Gas Reserves Disclosure
19	Management's Discussion and Analysis
25	Financial Statements

Abbreviations

bbls	barrels
mbbls	thousand barrels
bbl/d	barrels of oil per day
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
boe	barrels of oil equivalent where natural gas is equated to oil using 6 mcf = 1 barrel of oil
mboe	thousand barrels of oil equivalent
NGL	natural gas liquids

Annual Meeting

You are cordially invited to attend the Annual General and Special Meeting of the Shareholders of Real Resources Inc. which will be held on May 15, 2002 at the Selkirk House Conference Centre on the second floor at 555 - 4th Avenue S.W., Calgary, Alberta, at 3:00 p.m.

If unable to attend, shareholders are requested to complete and return the Proxy form to the Secretary of the Company.

Trading Summary

2001	Price Range			Trading Volume
	High	Low	Close	
1st Quarter	3.75	3.00	3.66	2,138,557
2nd Quarter	4.80	3.35	3.58	3,662,995
3rd Quarter	3.70	2.75	3.00	840,429
4th Quarter	3.65	2.77	3.20	1,013,201
				7,655,182

**STRATEGIC****GROWTH****CONTINUES:**

In the wake of plunging commodity prices and a widening economic recession throughout North America, Real set corporate records for wells drilled, production, revenue and cash flow — the third consecutive year of growth in all these areas.

HIGHLIGHTS

(\$ thousands, except per share data)	2001	2000	% Change
Petroleum and natural gas revenue	51,527	39,526	30
Cash flow from operations	27,586	22,720	21
Per share (basic)	1.48	1.35	10
Per share (diluted)	1.45	1.33	9
Net earnings	7,607	8,582	(11)
Per share (basic)	0.41	0.51	(20)
Per share (diluted)	0.40	0.50	(20)
Net capital expenditures	31,697	28,806	10
Corporate acquisitions	3,013	26,390	(89)
Long term debt	30,037	22,725	32
Shareholders' equity	53,787	42,120	28
Common shares outstanding (thousands)			
Basic	19,584	18,474	6
Diluted	20,011	18,820	6
Production			
Crude oil and NGLs (bbl/d)	2,603	2,160	21
Natural gas (mcf/d)	10,025	4,658	115
Barrels of oil equivalent (boe/d)	4,274	2,937	46
Prices			
Crude oil and NGLs (\$/bbl)	34.08	36.54	(7)
Natural gas (\$/mcf)	5.13	5.90	(13)
Reserves			
Crude oil and NGLs (mmbbls)			
Proved	6.7	5.3	26
Proved plus probable	9.0	7.3	23
Natural gas (bcf)			
Proved	30.8	37.5	(18)
Proved plus probable	45.3	51.0	(11)
Undeveloped land holdings			
Gross acres (thousands)	297	282	5
Net acres (thousands)	173	156	10
Wells drilled (working interest)			
Gross	86	45	91
Net	53	32	66



It would have been easy to lose focus during the heady opening months of the year 2001, as prices for oil and natural gas neared record highs, industry activity reached a feverish pitch, and the cost of supplies, services and acquisitions soared.

At Real, we resisted the temptation to overextend ourselves in a bullish market. We continued to pursue the path of strategic growth based on lower, historic commodity prices; a balanced and diversified inventory of exploration and development opportunities; an acceptable ratio of debt to cash flow; and a cautious price hedging program.

By year end, the Company's pragmatic approach was rewarded. In the wake of plunging commodity prices, decreased exploration and development activity, and a widening economic recession throughout North America, Real set corporate records for wells drilled, production, revenue and cash flow. This was the Company's third consecutive year of growth in all these areas.

Staying the Course in a Volatile Market

The year 2001 was a classic example of the cyclic nature of the oil and natural gas industry and how quickly it can be affected by factors such as an overall recession or the economic after effects of the tragedy in New York on September 11.

In January, everything looked rosy, as natural gas sold at the inventory transfer point in Alberta at more than \$13.00 Canadian per thousand cubic feet. The price early in the year for a barrel of reference crude oil was higher than \$45.00 Canadian. As the economy and markets deteriorated during the year, the price of natural gas fell by 75 percent at one point, to below \$3.00 Canadian per thousand cubic feet. By December, the price of a barrel of crude oil had dropped almost one third to \$30.00 Canadian.

The Company was not unaffected, experiencing fourth quarter reductions in revenue, cash flow and earnings as a result of lower product prices. However, we did not get caught up in the optimism of unsustainable commodity pricing. In early 2002, pricing for both crude oil and natural gas had rebounded once more to above the historic average. This, combined with the corporate hedging program and flexible exploration and development options, has left Real in a good position to profit during the remainder of the year.

Planning for Success

The Company developed its 2001 budget based on commodity prices of \$5.00 Canadian per thousand cubic feet for natural gas and \$38.00 Canadian per barrel for crude oil; prices much lower than what was being offered, but an approach that protected us against unforeseen fluctuations.

As it turned out, the average 2001 selling price for natural gas was \$6.30 Canadian per thousand cubic feet and \$41.00 Canadian per barrel of crude oil. Taking a cautious view of commodity prices ensured that Real did not overspend for acquisitions or overextend capital programs based on unrealistic cash flow expectations.

One of the objectives and guidelines set during the Company's annual budget process was to establish an acceptable ratio of debt to actual trailing cash flow. In the past, this ratio has been set at two years. Given the extraordinary cash flows expected in the high price environment going into 2001, maintaining such a ratio would not have been practical. We realized that if commodity prices fell, we might exceed our debt-carrying capacity. Instead, we set the maximum acceptable debt to actual trailing cash flow ratio at 1.5 years in 2001.

Over the past three years, Real has also actively hedged the prices of both oil and natural gas. This hedging program is designed to guarantee cash flow to complete the Company's capital program without exceeding the target debt to cash flow ratio. The hedging fixes a minimum price on both oil and natural gas without giving up all the exposure to higher prices. By ensuring the capital program is maintained through periods of price volatility, value is still realized through growth in production and reserves.

Real's corporate strategy is to develop a large and diverse inventory of opportunities that are balanced between light to medium grade crude oil and natural gas. This allows the Company to focus on the opportunities that generate the highest economic return within the context of product pricing. In early 2001, the capital program was oriented towards natural gas projects in the northern part of Alberta. A gradual and conscious shift was then made towards crude oil activities as natural gas prices fell more precipitously than crude oil. This flexibility allows the Company to continue to optimize the capital program based upon results and product pricing.

Meeting our Objectives

The success of Real's approach to careful growth is reflected in 2001 performance.

Capital expenditures for 2001 totaled \$39.8 million (before dispositions), down 28 percent from 2000, when we completed a major transaction by acquiring Prism Petroleum Inc. During the year, the Company's capital program was financed through a combination of cash flow, bank debt, a property divestment program and a flow-through share financing completed in the fourth quarter. The bulk of the capital, \$19.6 million, was directed towards drilling. A total of 86 (53.2 net) wells were drilled, resulting in 33 (20.7 net) oil wells, 35 (23.9 net) gas wells and 18 (8.6 net) abandoned wells, a success ratio of 84 percent. In confirming Real's commitment to growth through the drill bit, 32 of the total wells drilled throughout the year were classified as exploratory.

Average daily production increased 46 percent to 4,274 barrels of oil equivalent per day from 2,937 barrels of oil equivalent per day in 2000. The corporate objective for production growth on a per share basis from 2000 to 2001 was 30 percent and was exceeded as actual per share growth amounted to 32 percent. In addition, the percentage of production attributable to natural gas grew to 39 percent from 27 percent the year previous.

Increases in gross revenue and cash flow were attributable to the higher production volumes. Gross revenue for 2001 grew to \$51.5 million, an increase of 30 percent from \$39.5 million in the prior year. We achieved record cash flow in 2001 of \$27.6 million, a 21 percent increase from the \$22.7 million generated in 2000.

Real's overall earnings in 2001 decreased to \$0.41 per basic share from \$0.51 in 2000. This can be attributed to two major factors. The first was higher depletion, depreciation and amortization costs, a result of the Company's year end reserve review. The second factor was related to previous year adjustments to future income taxes.

On an oil equivalent basis, commodity prices were down 10 percent in 2001 as compared to 2000. Field operating costs were up slightly in 2001 to \$5.81 per barrel of oil equivalent from \$5.25 in 2000. The higher cost of supplies and services due to higher industry activity levels plus higher electricity costs were the main factors contributing to the cost increase. The corporate objective is to keep operating costs below \$5.50 per barrel of oil equivalent. In the fourth quarter 2001, Real divested 18 non-core mature properties, which will help achieve the operating cost objective in 2002. General and administrative costs remained unchanged from 2000 at \$1.71 per barrel of oil equivalent in 2001. The Company's objective is to keep general and administrative costs below \$2.00 per barrel of oil equivalent and this target was achieved and will continue to be lowered as production volumes increase.

Year end reserves on a proven plus probable basis increased by five percent to 16.6 million barrels of oil equivalent, compared to 15.8 million barrels of oil equivalent at the end of 2000. The corporate reserve objective of increasing reserves at an annual per share rate of greater than 30 percent was not achieved due to revisions that occurred relating to previous years. However, with the recent discoveries at Neutral Hills and an excellent inventory of drilling opportunities, improved reserve growth will occur in 2002.

Moving Ahead

The global economic slowdown has put a damper on the lofty energy prices enjoyed one year ago.

Although record numbers of gas wells were drilled in North America over the past several years, lower natural gas prices have resulted in reduced drilling activity on natural gas projects. Even with the record drilling activity, only a marginal increase in the natural gas supply was realized. Given the decline rate on natural gas supply, and a resurgence in the North American economy, natural gas prices are expected to increase. It isn't a question of "if", it is a question of "when".

The Company has an inventory of 34 development drilling locations situated on shallow natural gas projects at West Provost in East Central Alberta and Atlee in South East Alberta. These locations are being prepared in anticipation of increased natural gas prices and will be drilled when prices move upward.

OPEC has maintained reasonable control of oil prices by restricting the crude oil supply whenever prices fall below set target levels. This has created a positive atmosphere for crude oil projects. The Neutral Hills area of East Central Alberta has been very good to Real. A large portion of the development drilling activity in 2001 occurred on a Dina oil pool which was discovered in late 2000. In fourth quarter 2001, the Company discovered another Dina oil pool at Neutral Hills and will embark on an active drilling program to fully develop this new discovery.

The overheated corporate merger and acquisition market of the past year is expected to translate into an active property divestiture market in 2002. This is due to a combination of stretched balance sheets and/or an overall rationalization process. Real will monitor the divestiture market closely and capitalize on any property that fits corporate objectives.

With the Company's extensive inventory of opportunities and strong balance sheet, 2002 promises to be a good year.

Our Thanks

It takes people to ensure the success of any corporation. The work ethic and enthusiasm of Real's team are the cornerstones of the Company's continued growth. We salute their ongoing dedication.

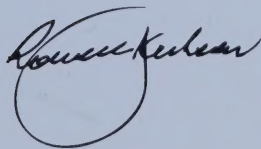
Subsequent to year end, Real experienced several changes in senior management. Ken Murphy was promoted to Executive Vice President as a reflection of his contribution to the growth of the Company. Gordie Crowell, Vice President Exploration for the last five and one half years, retired after 35 years in the industry. Frank Muller, the Chief Geologist for the past three and a half years, was promoted to Vice President Exploration. Lesley Miller, Vice President Finance and Chief Financial Officer of Real for the past four years, resigned to devote her energies to raising her young family. Pamela Orr, who has 20 years of accounting and finance experience with major multinational and Canadian exploration and production companies, has joined the Company as Vice President Finance and Chief Financial Officer.

In the first quarter of 2002, ARC Financial sold its share position in the Company. As a result of the sale, John Stewart resigned from the Board of Directors.

I would like to express my thanks to Gordie, Lesley and John for their contributions to Real.

I would also like to thank our Board of Directors for their wisdom, encouragement and guidance throughout the year, and our shareholders for their continued support.

On behalf of the Board of Directors,

A handwritten signature in black ink, appearing to read 'Lowell E. Jackson', with a large, stylized circular flourish at the bottom.

LOWELL E. JACKSON, P.Eng.

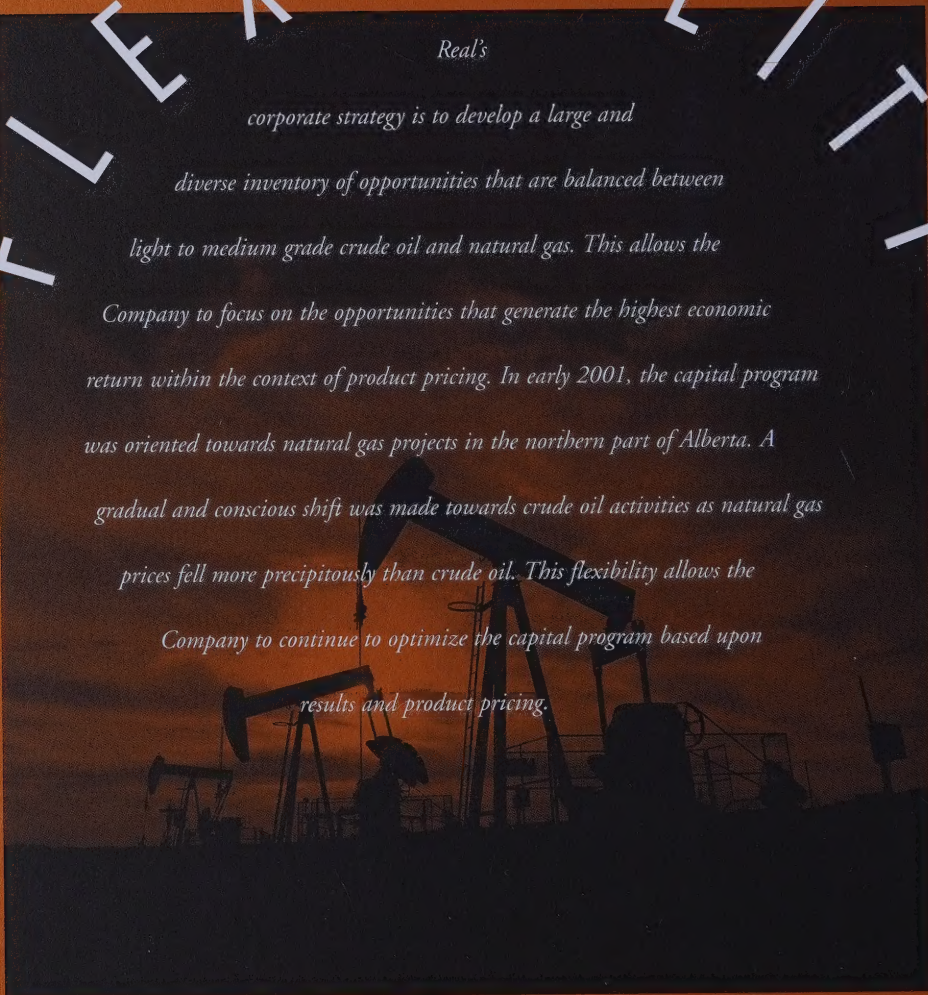
President and Chief Executive Officer

March 25, 2002

FLEXIBILITY

Real's

corporate strategy is to develop a large and diverse inventory of opportunities that are balanced between light to medium grade crude oil and natural gas. This allows the Company to focus on the opportunities that generate the highest economic return within the context of product pricing. In early 2001, the capital program was oriented towards natural gas projects in the northern part of Alberta. A gradual and conscious shift was made towards crude oil activities as natural gas prices fell more precipitously than crude oil. This flexibility allows the Company to continue to optimize the capital program based upon results and product pricing.



Reserves

Reserves Reconciliation

Crude Oil and NGLS (mbbls)	Proved	Probable	Total
January 1, 2001,			
opening balance	5,280	2,025	7,305
Production	(950)	—	(950)
Revisions	84	(182)	(98)
Additions	1,992	532	2,524
Acquisitions	446	80	526
Property dispositions	(197)	(70)	(267)
December 31, 2001,			
closing balance	6,655	2,385	9,040

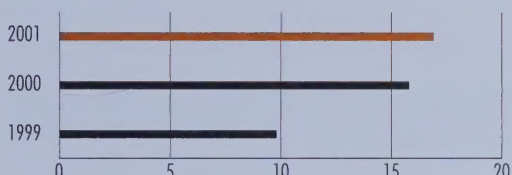
Natural Gas (mmcf)	Proved	Probable	Total
January 1, 2001,			
opening balance	37,516	13,515	51,031
Production	(3,659)	—	(3,659)
Revisions	(5,915)	(3,117)	(9,032)
Additions	5,851	3,917	9,768
Acquisitions	479	559	1,038
Property dispositions	(3,442)	(447)	(3,889)
December 31, 2001,			
closing balance	30,830	14,427	45,257

Reserves by Property (at December 31, 2001)

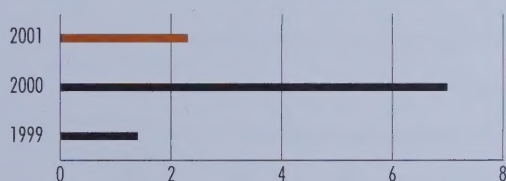
Crude Oil and NGLS (mbbls)	Proved	Probable	Total
Sounding Lake	1,365	571	1,936
Enchant	1,202	238	1,440
Neutral Hills	1,126	398	1,524
Rocanville	883	647	1,530
Alida West	597	102	699
Other Properties	1,482	429	1,911
Total	6,655	2,385	9,040

Natural Gas (mmcf)	Proved	Probable	Total
Atlee-Buffalo	10,621	4,323	14,944
West Provost	3,763	1,705	5,468
Scandia	3,593	1,642	5,235
Prairie River	2,994	2,375	5,369
Westrose	1,693	504	2,197
Other Properties	8,166	3,878	12,044
Total	30,830	14,427	45,257

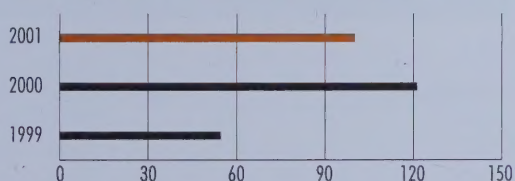
Total Reserves: mmboe @ 6:1 – proved + probable



Reserve Additions: mmboe @ 6:1 – including acquisitions and revisions



Present Value of Future Cash Flow: \$ Millions – discounted @ 15%

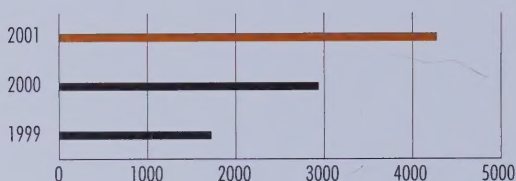


Value of Reserves

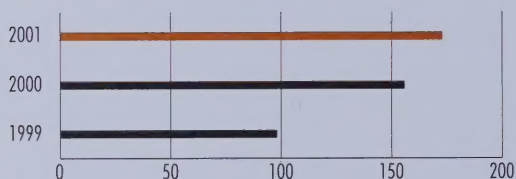
Present Worth of Future Cash Flow

(\$ millions) Discount	December 31, 2001				December 31, 2000				December 31, 1999			
	0%	10%	15%	20%	0%	10%	15%	20%	0%	10%	15%	20%
Proved	159	94	78	68	182	115	100	88	65	45	39	35
Probable	61	24	18	14	54	25	19	15	31	16	13	11
ARTC	6	3	3	2	7	4	3	2	4	3	3	2
Total	226	121	99	84	243	144	122	105	100	64	55	48

Production: boe @ 6:1 – per day



Net Undeveloped Land – acres 000's



Production

Production by Area

	2001	2000	1999
Crude Oil and NGLS (bbl/d)			
Sounding Lake	578	647	700
Alida West	501	668	313
Hays/Enchant	425	195	143
Neutral Hills	290	–	–
Evi	173	166	65
Rocanville	171	158	154
West Provost	94	33	–
Minor Properties	371	293	290
Total	2,603	2,160	1,665
Natural Gas (mcf/d)			
Atlee-Buffalo	1,825	595	–
Ricinus	1,422	486	–
West Provost	1,168	326	–
Scandia	1,138	232	–
Nelson Lake	889	83	–
Virginia Hills	815	1,822	–
Westerose	659	–	–
Prairie River	406	–	–
Minor Properties	1,703	1,114	344
Total	10,025	4,658	344

Product Prices

Pricing Forecast

December 31	West Texas Intermediate US \$/bbl			Edmonton Reference Cdn \$/bbl			Corporate Average Natural Gas Cdn \$/mcf		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
2000	–	–	21.00	–	–	29.43	–	–	2.67
2001	–	27.00	20.00	–	39.91	27.57	–	6.88	2.75
2002	21.00	24.00	20.50	32.31	34.80	27.85	3.40	5.04	2.75
2003	21.50	23.00	20.91	32.55	32.78	28.00	3.96	4.65	2.75

Land Holdings

Acreage Summary

(at December 31, 2001) (acres)	Total		Undeveloped		Fair Market Value*
	Gross	Net	Gross	Net	
Alberta	397,181	230,309	252,665	148,452	\$ 9,624,693
Saskatchewan	40,831	20,476	37,411	18,546	825,256
Manitoba	6,740	5,847	6,817	5,915	85,959
Total	444,752	256,632	296,893	172,913	\$10,535,908

* Seaton Jordan & Associates Ltd. - Undeveloped lands only

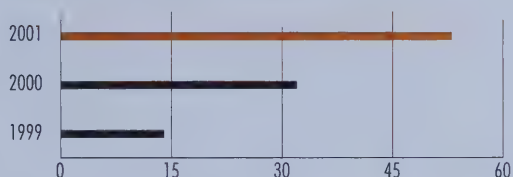
Costs

Finding and On-stream Costs			
	2001	2000	1999
Finding Costs (\$ thousands) (net of dispositions)			
Land	3,170	2,575	(1,925)
Seismic	1,883	1,849	1,319
Drilling and completion	19,558	14,894	6,807
Acquisitions	2,331	32,165	1,412
Total finding costs	26,942	51,483	7,613
Facilities	7,768	3,646	1,438
Total on-stream costs	34,710	55,129	9,051
Reserve Additions (mboe) (including acquisitions & revisions)*			
Proved	1,820	6,472	1,791
Proved plus probable	2,334	7,074	1,413
Finding Cost per Unit (\$/boe)*			
Proved	14.80	7.95	4.25
Proved plus probable	11.55	7.28	5.39
On-stream (\$/boe)*			
Proved	19.07	8.52	5.05
Proved plus probable	14.87	7.79	6.41
Operating Netback (\$/boe)*			
	20.87	24.39	16.08
Recycle Ratio			
Proved	1.09	2.86	3.18
Proved plus probable	1.40	3.13	2.51

Finding and On-stream Costs		
	3 Year Average	5 Year Average
Finding Costs (\$ thousands) (net of dispositions)		
Land	1,273	1,318
Seismic	1,684	1,486
Drilling and completion	13,753	10,296
Acquisitions	11,969	12,585
Total finding costs	28,679	25,685
Facilities	4,284	3,196
Total on-stream costs	32,963	28,881
Reserve Additions (including acquisitions & revisions)*		
Proved	3,361	2,911
Proved plus probable	3,607	3,835
Finding Cost per Unit (\$/boe)*		
Proved	8.53	8.82
Proved plus probable	7.95	6.70
On-stream (\$/boe)*		
Proved	9.81	9.92
Proved plus probable	9.14	7.53
Operating Netback (\$/boe)*		
	21.08	18.72
Recycle ratio		
Proved	2.15	1.89
Proved plus probable	2.31	2.49

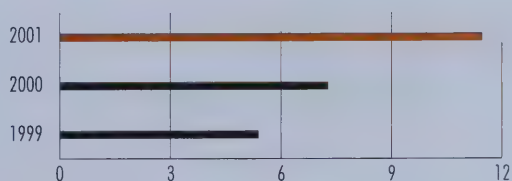
* Oil equivalent 6 mcf = 1 bbl

Drilling Activity – number of net wells drilled



Drilling Activity						
	2001		2000		1999	
	Gross	Net	Gross	Net	Gross	Net
Exploratory Wells						
Oil	2	2.0	3	2.5	–	–
Gas	14	9.9	14	8.9	2	1.0
Dry	16	7.2	10	5.8	6	4.0
Total	32	19.1	27	17.2	8	5.0
Success rate (%)	50	62	63	66	25	20
Average working interest (%)		68		64		63
Operated wells		20		26		8
Development Wells						
Oil	31	18.7	8	6.5	9	5.4
Gas	21	14.0	8	6.6	1	0.5
Service	–	–	–	–	3	2.3
Dry	2	1.4	2	1.8	1	0.5
Total	54	34.1	18	14.9	14	8.7
Success rate (%)	96	96	89	88	93	94
Average working interest (%)		64		83		62
Operated wells		31		16		9
Total Wells						
Oil	33	20.7	11	9.0	9	5.4
Gas	35	23.9	22	15.5	3	1.5
Service	–	–	–	–	3	2.3
Dry	18	8.6	12	7.6	7	4.5
Total	86	53.2	45	32.1	22	13.7
Success rate (%)	79	84	73	76	68	67
Average working interest (%)		62		71		62
Operated wells		51		42		17

Finding Costs – \$/boe* (including acquisitions + revisions)



BALANCE

Real

has an inventory of 34 development drilling locations situated on shallow natural gas projects at West Provost in East Central Alberta and Atlee in South East Alberta. These locations are being prepared in anticipation of increased natural gas prices and will be drilled when prices move upward. Given the decline rate on natural gas supply, and a resurgence in the North American economy, natural gas prices are expected to increase. It isn't a question of "if", it is a question of "when".



Exploration and Development

The evolution of Real from a small oil weighted producer to a well balanced full cycle junior oil and gas company is well underway.

Our growth strategy gained momentum in 2001, as we set a new record by drilling 86 wells (53.2 net). The Company continued to move forward with a more balanced approach between exploration and development. Exploration represented 36 percent of our drilling activity, while development drilling accounted for 64 percent.

Overall drilling success increased to 84 percent, while the average working interest per well decreased slightly to 62 percent. Real has maintained a high emphasis of hands-on management, operating 51 of the 86 wells.



The Company continued the pursuit of a more even split between oil and gas opportunities. In keeping with this objective, during the year Real successfully drilled 33 oil wells (20.7 net) and 35 gas wells (23.9 net), along with 18 dry holes (8.6 net).

The Company continues to stay the course by effectively integrating exploration, exploitation, development and acquisition activities in our four core focus areas: East Central Alberta, Southern Alberta, West Central Alberta and Southeast Saskatchewan.



East Central Alberta

The majority of Real's drilling and seismic activity in 2001 was in East Central Alberta, where a total of 44 wells, 10 exploratory and 34 development were drilled.

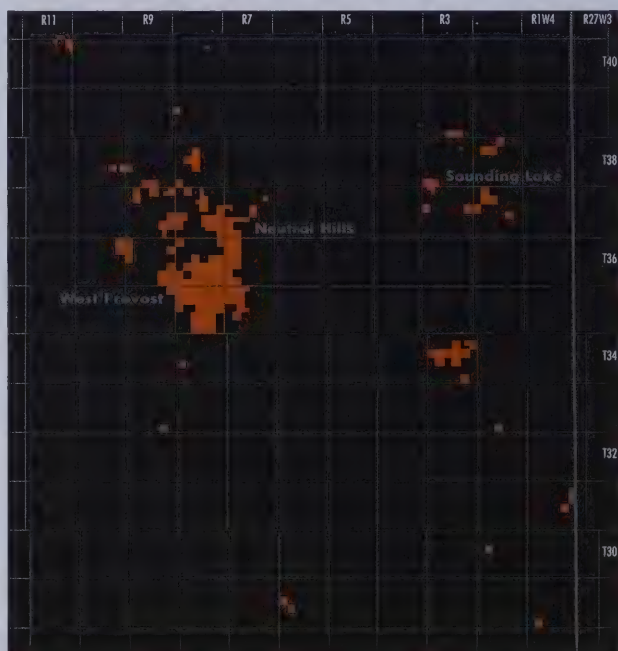
One key acquisition in this core area enhanced the Company's existing land and prospect inventory and led to two significant Dina oil pool discoveries. On the first Neutral Hills discovery, 18 development oil wells were drilled. Real currently holds a 45 percent working interest in this pool, with production at 1,300 barrels of oil per day (585 barrels of oil per day net to the Company).

A second significant Neutral Hills Dina oil discovery was made during the third quarter of 2001. After drilling three successful oil wells, Real conducted a 3-D seismic survey on 100 percent working interest lands adjacent to the discovery well. The Company drilled three more successful Dina oil wells to confirm the accuracy of the 3-D survey. Full scale development of this discovery began during the first quarter of 2002, with 12 Dina oil wells drilled at 100 percent working interest and another two drilled at 45 percent working interest. Up to 10 more locations have been identified on seismic and will be drilled during the remainder of the year.

In the West Provost Unit, Real and its partners drilled nine successful Viking oil/gas wells. Ongoing drilling in the Unit will be considered once gas prices improve. Just north of this area, three wells were drilled at Nelson Lake targeting Rex gas.

At Oyen, Real drilled two exploratory wells. The first was abandoned, but the second resulted in a new McLaren gas pool discovery. Up to three additional wells have been identified on 2-D trade seismic. Further drilling in the first half of 2002 will be necessary to achieve critical reserves for tie-in.

East Central Alberta	
Land Holdings:	
Year end 2000 (gross acres)	174,432
Year end 2001 (gross acres)	146,287
Change	(16%)
Net Reserves (Proven + Probable)	
Year end 2000 (mboe)	3,828
Year end 2001 (mboe)	5,048
Change	32%
Drilling Activity	
2000 gross wells	12
2001 gross wells	44
Change	267%
Net Production	
2000 (average daily boe)	1,001
2001 (average daily boe)	1,589
Change	59%



Southern Alberta

In the Southern Alberta area in 2001, the Company continued an active pace of development drilling where a total of 17 wells were drilled.

At Enchant, three development oil wells were drilled in the Arcs and Grotto formations. Subsequent to year end, we acquired additional interests in the pool.

With the addition of the three new oil wells and the increased working interest, net production from the Arcs/Grotto pool increased from 130 barrels of oil equivalent per day to 545 barrels of oil equivalent per day. Additional development and exploratory drilling targeting the Arcs/Grotto in the greater Enchant area is planned for the first half of 2002.

On Real's newly acquired Atlee-Buffalo property, a 100 percent successful shallow gas development program of 10 wells during the third quarter of 2001 was carried out. These Medicine Hat gas wells are characterized by relatively low production rates, countered by a long and stable reserve life index. The 10 wells are now tied in and contribute a net increase in production of approximately 450 thousand cubic feet per day. Further drilling activity to down space the Company's 48-section land position will be considered once gas prices improve.

Southern Alberta

Land Holdings:

Year end 2000 (gross acres)	59,001
Year end 2001 (gross acres)	61,081
Change	4%

Net Reserves (Proven + Probable)

Year end 2000 (mboe)	5,045
Year end 2001 (mboe)	5,896
Change	17%

Drilling Activity

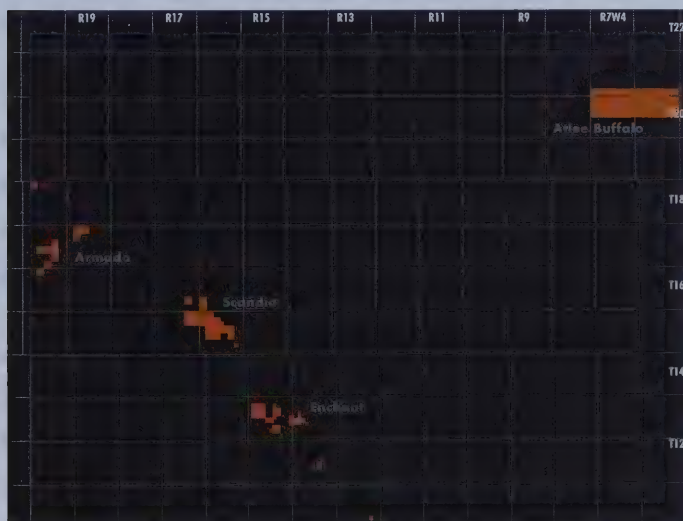
2000 gross wells	7
2001 gross wells	17
Change	143%

Net Production

2000 (average daily boe)	333
2001 (average daily boe)	963
Change	189%

Four exploratory wells were drilled during 2001. Three gas wells were drilled at Armada to follow up the discovery made in 2000. These new wells are now on production from the Bow Island, Glauconitic and Sunburst zones. Further drilling at Armada will also wait on improved gas prices. Real also drilled a dual zone exploratory gas discovery well at its Scandia property. Current gas production is restricted due to a third party processing

bottleneck. Once this restriction is removed, the Company plans to drill up to four additional wells during 2002.





West Central Alberta

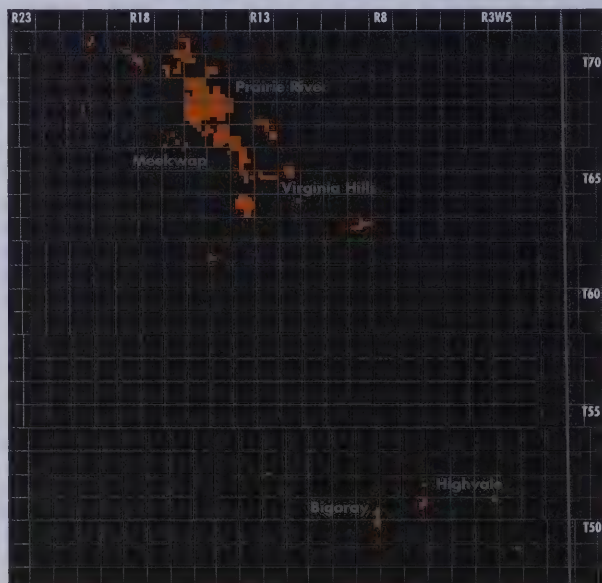
During 2001, Real drilled 21 wells in West Central Alberta. The majority were highly exploratory in nature and were drilled in the first half of the year because of winter only accessibility.

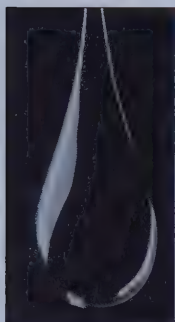
Ten exploratory wells were drilled at the Company's W5M project area, which consists of Prairie River, Meekwap and Virginia Hills. As a result of this drilling activity, a 37 km pipeline was constructed and Real's first Prairie River gas began flowing in the fourth quarter at 1.7 million cubic feet per day (net). Additional drilling and tie-ins of existing gas wells during 2002 will be dependent on improved gas prices. Other exploratory discoveries were drilled at Ricinus and Valleyview.

The Company drilled five development wells in West Central Alberta in 2001 to follow up previous discoveries. A second development well at Westeros, in which Real has a 50 percent working interest, encountered Glauconitic gas and is now producing 775 thousand cubic feet per day (net). On the Evi project, a successful horizontal Slave Point oil well was drilled and placed on production in the third quarter. A recent workover on this well has brought production up to 140 barrels of oil per day (net). The Company also drilled a shallow test well at Evi which encountered heavy oil in an Upper Mannville sand deemed to be uneconomic.

Looking forward into 2002, one of Real's most exciting play types involves testing some Devonian Beaverhill Lake and Nisku reef concepts in the greater Virginia/Swan Hills area. With the guidance and leadership of Norm Fischbuch, one of the most well respected Devonian explorers of the past 35 years, the Company has begun assembling an enviable list of leads and prospects. Real is confident that exposure to one or two of these high impact Devonian plays per year is an excellent way to position for future growth.

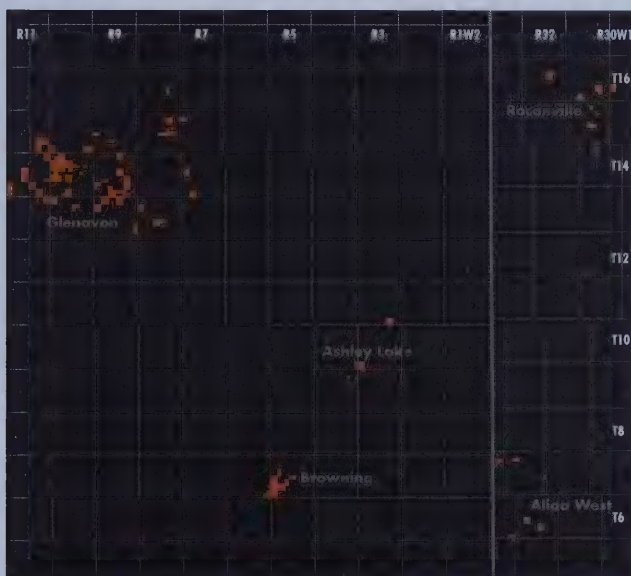
West Central Alberta	
Land Holdings:	
Year end 2000 (gross acres)	183,753
Year end 2001 (gross acres)	196,553
Change	7%
Net Reserves (Proven + Probable)	
Year end 2000 (mboe)	4,187
Year end 2001 (mboe)	2,876
Change	(31%)
Drilling Activity	
2000 gross wells	25
2001 gross wells	21
Change	(16%)
Net Production	
2000 (average daily boe)	661
2001 (average daily boe)	931
Change	41%





Southeast Saskatchewan

At Alida West, in which the Company continues to operate and hold a 100 percent working interest, the fourth and fifth successful horizontal oil wells were drilled during 2001. These two wells are now on production and represent the final development phase of the Alida West property. Real also drilled a successful horizontal oil well at Rocanville. Both of these properties produce high quality 40° API oil.



On the exploratory front, the Company was unsuccessful in a well at Browning (net 50 percent working interest). In the first quarter of 2002, Real plans to drill one additional horizontal well (net 33 percent working interest) on the Ashley Lake property.

Southeast Saskatchewan

Land Holdings:

Year end 2000 (gross acres)	47,090
Year end 2001 (gross acres)	40,831
Change	(13%)

Net Reserves (Proven + Probable)

Year end 2000 (mboe)	2,750
Year end 2001 (mboe)	2,764
Change	1%

Drilling Activity

2000 gross wells	1
2001 gross wells	4
Change	300%

Net Production

2000 (average daily boe)	942
2001 (average daily boe)	791
Change	(16%)

Product Marketing

Real continues to diversify and enhance the Company's crude oil and natural gas market portfolio by utilizing the services and expertise of various oil and gas marketers to sell its production. Through this marketing strategy, the objective is to obtain product prices that are higher than industry average. Crude oil and natural gas liquids are sold under short-term contracts. Gas production is sold through a combination of purchasers with approximately 75 percent being sold at AECO spot market prices.

Real has maintained an active hedging program to manage the Company's exposure to crude oil and natural gas price fluctuations. The intent of the hedging is to set an absolute foundation on product prices to ensure that a base capital program can be funded by a threshold cash flow without exceeding the corporate objective on the ratio of debt to cash flow. By providing for a base capital program, growth can be realized through increasing production and reserve volumes without compromising the balance sheet. The hedging is implemented utilizing a combination of price swaps, collars and floors. This approach allows for a secure minimum product price with the capability to participate in any upside. The time duration of the swaps, collars and floors are varied, which allows for price averaging over a long period of time.

Report of Management on Oil and Gas Reserves Disclosure

The management of Real Resources Inc. are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. Such information includes Reserves Data, which are:

- (a) (i) proved and probable oil and gas reserves estimated as at December 31, 2001 using forecast prices and costs; and
- (ii) the related estimated future net revenue; and
- (b) (i) proved oil and gas reserve quantities, estimated as at December 31, 2001 using constant prices and costs; and
- (ii) the related standardized measure of discounted future net cash flows from oil and gas reserve quantities.

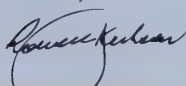
An independent qualified evaluator has evaluated the Company's Reserves Data. The report of the independent qualified evaluator will be filed with The Toronto Stock Exchange concurrently with this report.

The Reserves Committee of the Board of Directors of the Company has

- (a) reviewed the Company's procedures for providing information to the independent qualified evaluator,
- (b) met with the independent qualified evaluator to determine whether any restrictions affected the ability of the independent qualified evaluator to report without reservation, and
- (c) has reviewed the Reserves Data with management and the independent qualified evaluator.

The Reserves Committee of the Board of Directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The Board of Directors has, on the recommendation of the Reserves Committee, approved the content and filing of the Reserves Data and other oil and gas information, the filing of the report of the independent qualified evaluator on the Reserves Data and the content and filing of this report.

Because the Reserves Data are based on judgments regarding future events, actual results will vary and the variations may be material.



LOWELL E. JACKSON

President & Chief Executive Officer



SIG G. SLOTBOOM

Vice President Production & Engineering

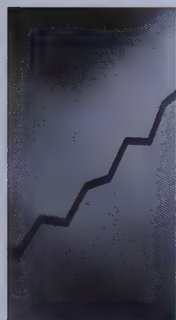


D. NOLAN BLADES

Director, Reserve Audit Committee

PERFORMANCE

Despite a softening in the commodity pricing environment during 2001, record drilling activity and production levels combined with the judicious use of commodity related financial derivatives paved the way for the third consecutive year of growth in revenue and cash flow. The increase in the degree of cash flow predictability associated with its hedging program allowed the Company to pursue a planned and aggressive capital expenditure and acquisition program during the year.



The following discussion and analysis is management's assessment of Real's historical financial and operating results and should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2001 and 2000 together with the notes related thereto. The reader should be aware that historical results are not

necessarily indicative of future performance. This discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered reasonable by Real at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the statements made. Where converted to a barrel of oil equivalent basis, all natural gas production results have been converted at the rate of 6 thousand cubic feet to 1 barrel of oil equivalent ("barrel of oil equivalent").

Financial Highlights of 2001

Despite a softening in the commodity pricing environment during 2001, record drilling activity and production levels combined with the judicious use of commodity related financial derivatives paved the way for the third consecutive year of growth in revenue and cash flow. The increase in the degree of cash flow predictability associated with its hedging program allowed the Company to pursue a planned and aggressive capital expenditure and acquisition program during the year.

Oil and Gas Revenue Summary Years ended December 31

(\$000's)	2001	2000	% Change
Oil and natural gas liquids revenue	30,830	32,177	(4)
Natural gas revenue	18,438	10,065	83
	49,268	42,242	17
Hedging gains/(losses)	1,870	(3,292)	157
Royalty income	389	576	(32)
Total oil and gas revenue	51,527	39,526	30

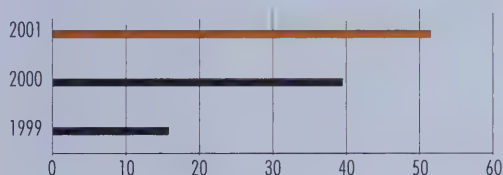
Detailed Financial Analysis

Revenues

Oil and gas revenue increased 30% in 2001 to \$51.5 million from \$39.5 million in 2000. This substantial revenue growth occurred as a result of higher production levels which more than offset lower realized commodity prices in 2001.

The effective use of hedging instruments mitigated the impact on Real of the general weakening of commodity prices during the year. The following tables summarize the average commodity prices received by the Company and the impact of the Company's hedging activities on these prices.

Revenue: \$ millions



Average Realized Price Years ended December 31

	2001	2000	% Change
Oil and liquids (\$/bbl) (excluding hedging)	32.45	40.70	(20)
Oil and liquids (\$/bbl) (including hedging)	34.08	36.54	(7)
Natural gas (\$/mcf) (excluding hedging)	5.04	5.90	(15)
Natural gas (\$/mcf) (including hedging)	5.13	5.90	(13)
Total average realized price (\$/boe) (including hedging)	32.78	36.24	(10)

Total Oil and Gas Revenue Years ended December 31

(\$/boe)	2001	2000	% Change
Sales revenue	31.58	39.30	(20)
Hedging gains/(losses)	1.20	(3.06)	139
Total average realized price	32.78	36.24	(10)
Royalty income	0.26	0.54	(52)
Total oil and gas revenue	33.04	36.78	(10)

Average daily oil and NGL production increased 21% to 2,603 barrels per day in 2001 from 2,160 barrels per day in 2000. The production increases were mainly attributable to successful drilling programs in the Neutral Hills and Hays/Enchant areas.

Average daily natural gas production increased 115% to 10,025 thousand cubic feet per day from 4,658 thousand cubic feet per day in 2000. The growth in gas production was primarily due to the full year impact of the Prism Petroleum Inc. corporate acquisition that was completed in September 2000 as well as an increase in the emphasis on gas exploration and development activities in the last year. Both of these activities have resulted in increases in gas production in a number of areas, including Atlee-Buffalo, Ricinus, West Provost and Scandia.

Total production for the year increased 46% to 4,274 equivalent barrels of oil per day in 2001 from 2,937 barrels of oil equivalent per day in 2000. This increase is net of the impact of the disposition of approximately 180 barrels of oil equivalent per day of mature production that were sold in the fourth quarter.

The following table summarizes the impact on oil and gas revenue of the Company's production gains, prices and hedging activities.

Variance Analysis

	(\$ millions)	% of Change
Reported 2000 oil and gas revenue	39.5	
Increase due to oil and liquids production volumes	6.5	54
Increase due to gas production volumes	11.5	96
Reduction due to realized oil and liquids price	(7.8)	(65)
Reduction due to realized gas price	(3.2)	(26)
Impact of hedging activities	5.2	43
Other	(0.2)	(2)
Total increase, net	12.0	100
Reported 2001 oil and gas revenue	51.5	

Royalty Expenses

Royalty expenses increased by 32% to \$10.5 million in 2001 from \$8.0 million in 2000 due partially to the increase in sales revenues. As a percentage of gross revenue, royalties increased to 21.4% in 2001 from 18.8% in 2000. This was primarily due to the increased proportionate level of production activities on Crown lands, which attract a higher average royalty percentage.

The Alberta Royalty Tax Credit ("ARTC") earned for 2001 increased to \$0.6 million from \$0.3 million in 2000. This increase reflects the growth in Real's production activities to the level where it is now eligible for the maximum royalty shelter of \$0.5 million. Also included in 2001 is the positive impact of prior year's ARTC adjustments which amount to approximately \$0.1 million.

Royalty Expenses Years ended December 31

(\$000's, except where noted)	2001	2000	% Change
Crown	8,118	5,766	41
Freehold and GORR	2,409	2,199	10
Total Crown, freehold and GORR royalties	10,527	7,965	32
ARTC	(600)	(290)	107
Total royalties, net of ARTC	9,927	7,675	29
Total royalties, net of ARTC (\$/boe)	6.36	7.14	(11)

Average Royalty Rates Years ended December 31

(average % of sales, excluding hedging activities)	2001	2000	% Change
Crown	16.5	13.6	21
Freehold and GORR	4.9	5.2	(6)
Total Crown, freehold and GORR royalties	21.4	18.8	14
ARTC	(1.2)	(0.7)	71
Total royalties, net of ARTC	20.2	18.1	11

Operating Expenses

Operating expenses increased 61% to \$9.1 million in 2001 from \$5.6 million in 2000 primarily as a result of higher production levels. On a unit of production basis, operating expenses increased 11% to \$5.81 per barrel of oil equivalent in 2001 compared with \$5.25 per barrel of oil equivalent in 2000. This increase was primarily the result of higher electricity and industry service costs incurred during the first quarter of 2001. The disposition in the fourth quarter of mature properties with production of 180 barrels of oil equivalent per day is expected to contribute an approximate \$0.35 per barrel of oil equivalent reduction in ongoing operating costs into 2002.

Operating Expenses Years ended December 31			
(\$000's, except where noted)	2001	2000	%Change
Operating expenses	9,061	5,640	61
Operating expenses (\$/boe)	5.81	5.25	11

General and Administrative Expenses

General and administrative expenses ("G&A") (net of recoveries and capitalized expense) increased by 45% to \$2.7 million in 2001 compared to \$1.8 million in 2000. This increase is attributable to the additional staffing levels required to support the Company's growth during 2001. On a unit of production basis, gross G&A expenses and G&A expenses net of recoveries decreased by 13% and 11% respectively. Net G&A expenses (after capitalization of costs related to acquisition, exploration and development activities) remained unchanged from 2000 to 2001 at \$1.71 per barrel of oil equivalent.

General and Administrative Expenses Years ended December 31			
(\$000's)	2001	2000	% Change
Gross expense	4,737	3,736	27
Operator recoveries	(1,284)	(1,058)	21
Subtotal	3,453	2,678	29
Capitalized expense	(790)	(845)	(7)
Net expense	2,663	1,833	45

Average Cost per Barrel Equivalent Years ended December 31

(\$/boe)	2001	2000	% Change
Gross expense	3.04	3.48	(13)
Operator recoveries	(0.82)	(0.98)	(16)
Subtotal	2.22	2.50	(11)
Capitalized expense	(0.51)	(0.79)	(35)
Net expense	1.71	1.71	—

Interest Expense

Interest expense for 2001 was \$1.8 million compared to \$1.0 million in 2000. This 80% increase reflects the use of bank debt to finance the capital expenditure program undertaken during the year. The average all-inclusive cost of debt in 2001 was 5.7% which is 11 percent lower than the average cost of debt in 2000 of 6.4%.

Interest Expense Years ended December 31			
(\$000's except where noted)	2001	2000	% Change
Interest expense	1,812	1,008	80
Interest expense per boe (\$/boe)	1.16	0.94	24
Average debt outstanding	31,750	15,650	103
Average effective interest rate (%)	5.7	6.4	(11)

Depletion, Depreciation and Site Restoration

Depletion, depreciation and site restoration ("DD&A") expense increased 75% to \$14.3 million from \$8.2 million in 2000. Approximately 60% of the increase was directly due to increased production levels. DD&A expense averaged \$9.16 per barrel of oil equivalent in 2001, 20% higher than \$7.62 per barrel of oil equivalent in 2000. The increased rate is partially the result of higher rig and service costs experienced by the industry during the earlier part of the year. The rate was also negatively affected to a lesser extent by the impact of the 8% reserve write-down related to Real's proven natural gas reserve base (as a percentage of total proven reserves). Included in DD&A expense is \$0.8 million attributable to the site restoration provision (slightly up from the \$0.7 million included in the 2000 provision).

Depletion, Depreciation and Site Restoration Years ended December 31			
(\$000's, except where noted)	2001	2000	% Change
Depletion, depreciation and site restoration	14,287	8,184	75
Depletion, depreciation and site restoration (\$/boe)	9.16	7.62	20

Income Taxes

The Company's current tax expense decreased 26% to \$0.5 million from \$0.7 million in 2000. The current tax expense relates to Saskatchewan Capital Tax and Large Corporations Tax. These taxes were lower in 2001 due to the favourable impact of adjustments related to prior years. Real paid no current income tax in 2001.

Future income taxes decreased 4% to \$5.7 million from \$6.0 million in 2000. This was primarily due to lower earnings before taxes. The effective tax rate increased 3% to 44.8% from 43.5% in 2000. Included in the tax rate is Saskatchewan Capital Tax and Large Corporations Tax. The decrease in the Alberta statutory rate in March 2001 was more than offset by the one time impact of adjustments made to the Company's 2001 opening pool balances that arose as the result of a reassessment of balances brought forward from a corporate acquisition completed in previous years.

Income Taxes Years ended December 31			
(\$000's, except where noted)	2001	2000	% Change
Capital taxes	482	654	(26)
Future income taxes	5,692	5,954	(4)
Total income taxes	6,174	6,608	(7)
Total income taxes (\$/boe)	3.96	6.13	(35)
Effective tax rate (%)	44.8	43.5	3

At the end of 2001 Real had approximately \$55.1 million of accumulated tax pools that are available for deduction against future earnings compared to \$51.1 million at December 31, 2000.

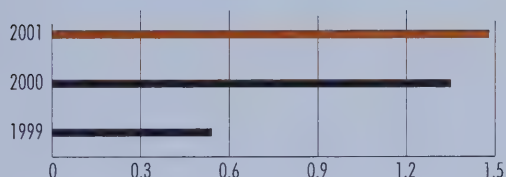
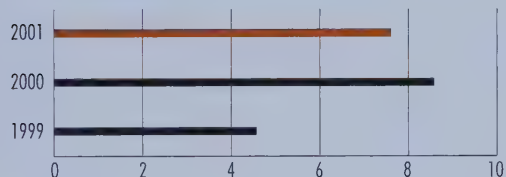
Summary of Tax Pools at December 31, 2001		
(\$000's)	Maximum Available Balances	Maximum Annual Deduction
Canadian Exploration Expense	4,010	100%
Canadian Development Expense	16,757	30%
Canadian Oil & Gas Property Expense	19,250	10%
Undepreciated Capital Costs	14,582	4 – 30%
Foreign Exploration & Development Expense	46	10%
Other	472	8 – 20%
Total	55,117	

Net Earnings and Cash Flow from Operations

Net earnings decreased 11% to \$7.6 million for the year as compared with net earnings of \$8.6 million in 2000. Net earnings per basic share decreased 20% to \$0.41 per share in 2001 from \$0.51 per share in 2000. Similarly, diluted net earnings per share decreased 20% to \$0.40 per share in 2001 from \$0.50 per share in 2000. Cash flow from operations increased 21% to \$27.6 million in 2001 from \$22.7 million in 2000. Cash flow from operations per basic share rose 10% to \$1.48 per share from \$1.35 per share in 2000 and diluted cash flow from operations per share increased 9% to \$1.45 per share compared to \$1.33 per share in 2000. All per share computations have been adjusted to reflect the retroactive adoption by the Company of the Canadian Institute of Chartered Accountants standard with respect to the Treasury Stock Method of determining the dilutive effect of stock options, warrants and other dilutive instruments.

Netbacks Years ended December 31

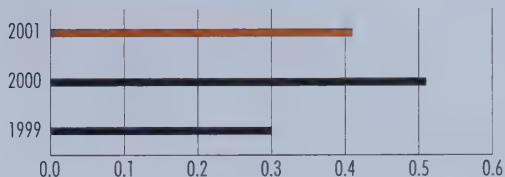
(\$/boe)	2001	2000
Oil and gas revenue	33.04	36.78
Net royalties	(6.36)	(7.14)
Operating expenses	(5.81)	(5.25)
Operating netback	20.87	24.39
General and administrative expenses	(1.71)	(1.71)
Interest expense	(1.16)	(0.94)
Current taxes	(0.31)	(0.60)
Cash flow netback	17.69	21.14
Depletion, depreciation and site restoration	(9.16)	(7.62)
Future income taxes	(3.65)	(5.53)
Corporate netback	4.88	7.99

Cash Flow: \$ millions**Cash Flow per Share: \$ per share basic****Net Earnings: \$ millions****Liquidity and Capital Resources**

Real executes its growth strategy through exploration, exploitation and development activities supplemented with strategic property and corporate acquisitions. The capital expenditure program for the past two years is summarized in the following reconciliation of the carrying value of Property, Plant and Equipment.

Capital Expenditures

(\$000's)	2001	2000
Gross Property, Plant and Equipment, January 1	125,132	57,737
Exploration and Development Expenditures		
Lease acquisition and retention	3,170	2,653
Geological and geophysical	1,883	2,021
Drilling and completion	19,558	14,894
Facilities and equipment	7,768	3,695
Total Exploration and Development Expenditures	32,379	23,263
Other property, plant and equipment	66	64
Total Capital Expenditures	32,445	23,327
Proceeds from property dispositions	(5,072)	(316)
Net Capital Expenditures	27,373	23,011
Property acquisitions	4,323	5,795
Corporate acquisitions	3,014	26,390
Future income tax gross-up on corporate acquisitions	2,024	12,199
Gross Property, Plant and Equipment, December 31	161,866	125,132

Net Earnings per Share: \$ per share basic

Funding for capital expenditures and acquisitions was provided by cash flow from operations, working capital, bank debt, property dispositions and equity issues. As at December 31, 2001, the Company had a \$55.0 million demand operating facility with a Canadian chartered bank of which \$30.0 million was drawn. In addition to this debt, Real had a working capital deficiency of \$2.7 million for a total net debt of \$32.7 million. This represents an increase of \$3.4 million from the 2000 net debt amount of \$29.3 million. The ratio of total net debt as at December 31, 2001 to 2001 cash flow was 1.2 times. During the fourth quarter of 2001 the Company completed a private placement of one million flow-through common shares at a price of \$4.00 per share. The proceeds from the offering will be used to fund Real's ongoing exploration program.

Long Term Debt: \$ millions



Business Risks

The Company is engaged in the exploration, development, production and acquisition of crude oil and natural gas. Real's business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates and currency exchange rates. Operational risks include competition, environmental factors, reservoir performance uncertainties, a complex regulatory environment and safety concerns.

The Company minimizes its business risks by operating a large number of its properties. This enables Real to control the timing, direction and costs

related to exploration and development opportunities. The geological focus is on areas in which the prospects are well understood by management. Technological tools are regularly used to reduce risk and increase the probability of success. The Company closely follows all government regulations and has an up to date emergency response plan that has been communicated to all field operations by management. Real also carries insurance coverage to protect itself against potential losses. Maintaining a highly motivated and talented staff of petroleum and natural gas professionals further minimizes the business risk.

The Company is exposed to commodity price and market risk for its principal products of petroleum and natural gas. Commodity prices are influenced by a wide variety of factors of which most are beyond the control of Real. To manage this risk, the Company has entered into a number of short-term financial derivatives for hedging purposes. These derivatives include contracts related to oil and gas prices, as well as foreign exchange rates. Real has also minimized its exposure to increases in interest rates by entering into short-term contracts for interest rate swaptions.

The Company is committed to maximizing shareholder value in an environmentally and socially responsible and safe manner. To this end, Real is actively involved in the Canadian Association of Petroleum Producers ("CAPP") Stewardship initiative. This voluntary initiative encourages members to continually improve their environment, health and safety performance and to report their progress to all stakeholders. The Company is pleased to report that CAPP has recognized Real's participation at a Silver level which acknowledges an open and transparent account of our environment, health and safety performance on a yearly basis and a leadership role in the improvement of these issues.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the Shareholders of Real Resources Inc.

The accompanying financial statements and all other financial information presented in this annual report are the responsibility of Real's management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Management has developed and maintains systems of internal accounting controls, policies and procedures in order to provide for the safeguarding of assets and preparation of relevant, reliable and timely financial information.

External auditors, appointed by the shareholders, have examined the financial statements. The Audit Committee reviews these statements with management and the auditors and reports to the Board of Directors who approve the financial statements.



PAMELA J. ORR

Vice President Finance
& Chief Financial Officer



LOWELL E. JACKSON

President & Chief Executive Officer

Calgary, Alberta, Canada
March 25, 2002

AUDITORS' REPORT

To the Shareholders of Real Resources Inc.

We have audited the balance sheets of Real Resources Inc. as at December 31, 2001 and 2000 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Calgary, Canada

March 25, 2002

BALANCE SHEETS

December 31, 2001 and 2000

(In thousands of dollars)

	2001	2000
Assets		
Current assets		
Cash	\$ —	\$ 117
Accounts receivable	7,317	9,244
Prepaid expenses	479	424
	7,796	9,785
Property, plant and equipment (note 3)	113,242	90,048
	\$ 121,038	\$ 99,833

Liabilities and Shareholders' Equity

Current liabilities		
Accounts payable and accrued liabilities	\$ 10,228	\$ 16,112
Current portion of deferred revenue (note 5)	220	257
	10,448	16,369
Long term debt (note 4)	30,037	22,725
Deferred revenue (note 5)	222	443
Accumulated future site restoration provision (note 3)	3,128	2,379
Future income taxes	23,416	15,797
Shareholders' equity		
Share capital (note 6)	35,242	31,182
Retained earnings	18,545	10,938
	53,787	42,120
	\$ 121,038	\$ 99,833

Commitments (note 8)

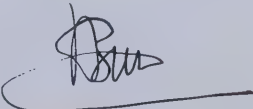
See accompanying notes to financial statements.

On behalf of the Board:



DALLAS L. DROPP, QC

Director



FRANS BURGER

Director

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended December 31, 2001 and 2000

(In thousands of dollars, except per share amounts)

	2001	2000
Revenue		
Oil and gas	\$ 51,527	\$ 39,526
Royalties	(10,527)	(7,965)
Alberta Royalty Tax Credit	600	290
Other	4	4
	41,604	31,855
Expenses		
Operating	9,061	5,640
General and administrative	2,663	1,833
Interest on long term debt	1,812	1,008
Depletion, depreciation and site restoration	14,287	8,184
	27,823	16,665
Earnings before taxes	13,781	15,190
Taxes (note 7)		
Current	482	654
Future	5,692	5,954
	6,174	6,608
Net earnings	7,607	8,582
Retained earnings (deficit), beginning of year	10,938	(15,315)
Restatement –future income taxes	–	2,356
Reduction of stated capital (note 6(c))	–	15,315
Retained earnings, end of year	\$ 18,545	\$ 10,938
Earnings per share (note 6(g))	\$ 0.41	\$ 0.51
Diluted earnings per share (note 6(g))	\$ 0.40	\$ 0.50

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Years ended December 31, 2001 and 2000

(In thousands of dollars, except per share amounts)

	2001	2000
Cash provided by (used in):		
Operating Activities		
Net earnings	\$ 7,607	\$ 8,582
Items not involving cash		
Depletion, depreciation and site restoration	14,287	8,184
Future income taxes (note 7)	5,692	5,954
Cash flow from operations	27,586	22,720
Changes in non-cash working capital		
Decrease (increase) in trade and other receivables	1,341	(1,800)
Increase in prepaid expenses	(55)	(249)
(Decrease) increase in trade and other payables	(219)	1,229
	28,653	21,900
Financing Activities		
Issue of share capital, net	3,962	67
Increase in long term debt	7,312	16,342
Repayment of notes receivable	—	80
Decrease in prepaid revenue	(257)	(62)
	11,017	16,427
Investing Activities		
Additions to property, plant and equipment	(32,445)	(23,327)
Corporate acquisitions (note 2)	(2,888)	(14,485)
Property acquisitions	(4,323)	(5,795)
Proceeds on property dispositions	5,072	316
Site restoration and abandonment expenditures	(8)	—
	(34,592)	(43,291)
Changes in non-cash working capital		
Decrease in trade and other receivables	630	420
(Decrease) increase in trade and other payables	(5,825)	4,661
	(39,787)	(38,210)
Change in cash	(117)	117
Cash, beginning of year	117	—
Cash, end of year	\$ —	\$ 117
Cash flow from operations per share (note 6(g))	\$ 1.48	\$ 1.35
Diluted cash flow from operations per share (note 6(g))	\$ 1.45	\$ 1.33
Supplementary disclosure		
Cash interest paid	\$ 1,812	\$ 968
Capital taxes paid	\$ 503	\$ 410
Non-cash transactions		
Share consideration issued on corporate acquisition (note 2)	—	\$ 7,917

See accompanying notes to financial statements.

Years ended December 31, 2001 and 2000

(Tabular amounts in thousands of dollars except share and option numbers)

Note 1

Significant accounting policies

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from these estimates.

(a) Joint interests

Significant portions of the Company's oil and gas activities are conducted jointly with others and accordingly, these financial statements reflect only Real's proportionate interest in such activities.

(b) Property, plant and equipment

The Company follows the full cost method of accounting for exploration and development expenditures whereby all costs relating to the acquisition of, exploration for and development of oil and gas reserves are capitalized. Such costs include lease acquisition, geological and geophysical, lease rentals on undeveloped properties, drilling both productive and non-productive wells, production equipment and overhead charges directly related to acquisition, exploration and development activities. Proceeds received from disposals of properties and equipment are credited against capitalized costs unless the disposal would alter the rate of depletion and depreciation by more than 20 percent, in which case a gain or loss on disposal is recorded.

All costs of acquisition, exploration and development of oil and gas reserves, associated tangible plant and equipment costs, and estimated costs of future development of proven undeveloped reserves are depleted and depreciated by the unit of production method based on estimated gross proven reserves as determined by independent engineers. Oil and gas reserves are converted to equivalent units using their relative energy content.

Depreciation of property, plant and equipment not related to oil and gas properties is provided using the diminishing balance method at rates between 20 and 30 percent.

Costs of unproved properties are initially excluded from oil and gas properties for the purpose of calculating depletion. These unproved properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

Real applies an annual ceiling test to ensure that its oil and gas properties are carried at the lower of capitalized cost and net recoverable value. Capitalized cost is the net book value of oil and gas properties less the accumulated future site restoration provision and future income taxes. Net recoverable value is the amount of estimated future net revenue from production of proven reserves at year end prices and costs, plus the cost of unproved properties (net of impairments), less estimated costs for future administrative overhead, financing, site restoration and income taxes.

(c) Future site restoration

Estimated future site restoration costs for oil and gas properties are provided for over the life of the proven reserves on a unit of production basis. Costs are based on the Company's engineering estimates considering current regulations, costs, technology and industry standards. Actual site restoration expenditures are charged against the accumulated future site restoration provision.

(d) Hedging transactions

Real uses financial instruments to hedge exposures related to commodity prices and foreign exchange fluctuations on a portion of its crude oil and natural gas production. Gains and losses on these transactions are recognized as part of oil and gas revenue when realized.

(e) Income taxes

Effective January 1, 2000, the Company adopted the liability method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants ("CICA"). Under the liability method, the company records future income taxes for the effect of any differences between the accounting and the income tax basis of an asset or liability. Real has retroactively adopted, without restatement, the CICA recommendations by recording an increase to retained earnings and a decrease in the future income tax liability of \$2,356,000 in 2000. Prior to 2000, the Company followed the tax deferral method of accounting for income taxes. The impact of this accounting change for the year ended December 31, 2000 was a decrease in earnings of \$4,847,000.

(f) Revenue recognition

Payments received for prepaid natural gas sales contracts are recognized as revenue over the term of the contracts.

Note 2**Acquisitions**

Real completed the following acquisitions during 2001 and 2000. These acquisitions have been accounted for by the purchase method, and accordingly, the respective results of operations have been included in these financial statements from the date of acquisition. Each of the entities have been amalgamated with the Company and continued as Real Resources Inc.

(a) Acquisition of Embo Petroleum Inc.

Effective March 1, 2001, the Company acquired all of the issued and outstanding shares of Embo Petroleum Inc., an oil and gas company, for cash.

Non-cash working capital	\$ (115)
Property, plant and equipment	5,037
Accumulated site restoration provision	(10)
Future income taxes	(2,024)
Total cash consideration	\$ 2,888

(b) Acquisition of Flatland Resources Inc.

Effective January 7, 2000 the Company acquired all of the issued and outstanding shares of Flatland Resources Inc., an oil and gas company, for cash.

Property, plant and equipment	\$ 7,223
Future income taxes	(3,223)
Total cash consideration	\$ 4,000

(c) Acquisition of Prism Petroleum Inc.

Effective September 7, 2000 the Company acquired all of the issued and outstanding shares of Prism Petroleum Inc., an oil and gas company.

Non-cash working capital	\$ (176)
Property, plant and equipment	31,366
Long term debt	(2,594)
Prepaid revenue	(796)
Accumulated site restoration provision	(422)
Future income taxes	(8,976)
Total consideration	\$ 18,402
Financed by	
Issue of shares	\$ 7,917
Cash consideration	10,485
Total consideration	\$ 18,402

Note 3**Property, plant and equipment**

	2001	2000
Oil and gas properties, plant and equipment	\$ 161,412	\$ 124,745
Other	454	387
	161,866	125,132
Less accumulated depletion and depreciation	48,624	35,084
	\$ 113,242	\$ 90,048

At December 31, 2001, oil and gas properties included \$10,536,000 (2000: \$5,000,000) relating to unproved properties which have been excluded from the depletion and depreciation calculation. Future development costs on proven undeveloped reserves of \$8,926,000 (2000: \$4,805,000) are included in the depletion and depreciation calculation.

In 2001, Real capitalized \$790,000 (2000: \$845,000) of overhead directly related to acquisition, exploration and development activities.

At December 31, 2001, the Company estimates its liability for future site restoration and abandonment to be \$6,946,000 (net of the year-end accumulated provision) (2000: \$7,201,000).

Note 4**Long term debt**

At December 31, 2001 the Company had a \$55 million demand operating credit facility with a Canadian chartered bank. The loan facility provides that advances may be made by way of direct advances, bankers acceptances or U.S. dollar LIBOR advances which bear interest at the applicable bankers' acceptances or LIBOR rates plus an applicable bank fee per annum or the bank's prime lending rate depending on the nature of the advance. The authorized limit is subject to an annual review and redetermination of Real's borrowing base by the bank.

The effective interest rate on the amounts outstanding under the facility at December 31, 2001 was 3.6 percent (2000: 6.8 percent).

Collateral pledged for the facility consists of a fixed and floating charge demand debenture in the principal amount of \$100 million conveying a floating charge on all of the property and assets of the Company.

While the credit facility is demand in nature, the bank has stated that it is not its intention to call for repayment before December 31, 2002 provided that there is no adverse change in Real's financial position. Accordingly, the loan advances are classified as long-term.

Note 5

Deferred revenue

As part of the Prism acquisition completed in 2000 (note 2), the Company became party to a prepaid natural gas sale agreement. Pursuant to the agreement, Real will deliver the following remaining quantities of natural gas:

2002	300 gigajoules per day
2003	300 gigajoules per day

The purchaser has been granted a first charge and security interest in and to certain lands in the West Provost area.

Note 6

Share capital

(a) Authorized

Unlimited number of voting common shares without par value.

Unlimited number of first, second, third and fourth class preferred shares, issuable in series.

(b) Common shares issued

	2001		2000	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of year	18,474,245	\$ 31,182	16,028,212	\$ 38,513
Reduction of stated capital	—	—	—	(15,315)
Issued for cash on exercise of stock options	109,664	189	37,501	67
Issued for cash on flow-through shares issues	1,000,000	4,000	—	—
Issued on Prism acquisition	—	—	2,408,532	7,917
Issue costs (net of tax effect)	—	(129)	—	—
Balance at end of year	19,583,909	\$ 35,242	18,474,245	\$ 31,182

(c) Reduction of stated capital

The Company eliminated the accumulated deficit as at December 31, 1999 by reducing stated capital as ratified by shareholders at the May 18, 2000 Annual General and Special Meeting.

(d) Share consolidation

On May 18, 2000, shareholders of Real approved the consolidation of the common shares on the basis of one new common share being issued for every four previously issued and outstanding common shares.

(e) Options

The Company has a stock option plan that provides for the issuance of options to its directors, officers and employees to acquire up to 1,853,558 common shares. The options vest evenly over a three year period and expire five years from the date of grant. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Consideration paid by employees on exercise of stock options and purchase of stock is credited to share capital.

A summary of the status of Real's stock option plan as of December 31, 2001 and 2000, and changes during the years ended on those dates is presented below:

	2001		2000	
	Number of Options	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,599,166	\$ 2.59	1,275,833	\$ 2.44
Granted	395,138	\$ 3.33	430,000	\$ 2.96
Exercised	(109,664)	\$ 1.72	(37,501)	\$ 1.79
Expired/Cancelled	(164,183)	\$ 3.59	(69,166)	\$ 2.80
Outstanding at end of year	1,720,457	\$ 2.72	1,599,166	\$ 2.59
Options exercisable at end of year	884,334	\$ 2.60	651,249	\$ 2.75

The following table summarizes information regarding stock options outstanding at December 31, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 1.32 - \$ 1.48	82,918	2.9	\$ 1.43	53,334	\$ 1.43
\$ 1.60 - \$ 1.96	542,668	2.1	\$ 1.69	360,999	\$ 1.67
\$ 2.08 - \$ 2.44	104,333	2.8	\$ 2.41	51,666	\$ 2.43
\$ 2.72 - \$ 2.95	62,500	3.7	\$ 2.90	20,834	\$ 2.90
\$ 3.00 - \$ 3.48	619,110	4.0	\$ 3.32	117,084	\$ 3.31
\$ 3.52 - \$ 3.60	240,424	1.2	\$ 3.60	230,417	\$ 3.60
\$ 3.90 - \$ 4.40	68,504	2.2	\$ 4.28	50,000	\$ 4.40
	1,720,457	2.8	\$ 2.72	884,334	\$ 2.60

Subsequent to year end, the Company granted options to purchase 143,100 common shares at prices ranging from \$3.01 to \$3.40 per share which expire in the first quarter of 2007. Also subsequent to year end, options with respect to 173,668 shares were exercised at a weighted average price of \$2.39 per share.

(f) Warrants

At December 31, 2000, warrants to purchase 312,500 common shares at an exercise price of \$4.00 per share were outstanding. The warrants expired in September 2001.

(g) Per share amounts

During 2001, Real retroactively adopted the Canadian Institute of Chartered Accountants standard with respect to the computation, presentation and disclosure of per share amounts. Under this standard the Treasury Stock Method is used to determine the dilutive effect of stock options, warrants and other dilutive instruments. Earnings and cash flow from operations per share are calculated using the weighted average number of common shares outstanding of 18,592,931 (2000: 16,803,128). Diluted earnings and cash flow from operations per share are calculated assuming an average price of \$3.71 (2000: \$2.99). The calculations are based on a weighted average number of common shares of 19,020,077 (2000: 17,149,330).

Note 7**Income taxes**

The differences between the expected income tax provision based on the combined federal and provincial statutory tax rate of 42.9 percent (2000: 44.6 percent) and the amount actually provided is as follows:

	2001	2000
Expected income taxes	\$ 5,918	\$ 6,778
Non-deductible crown payments	3,473	2,588
Alberta Royalty Tax Credit	(257)	(129)
Resource allowance	(3,757)	(3,147)
Rate reduction	(600)	–
Tax pool adjustments	950	–
Other	(35)	(136)
	5,692	5,954
Capital taxes	482	654
	\$ 6,174	\$ 6,608

The Company's future income tax liability as at December 31, 2001 is comprised of the following:

	2001	2000
Property, plant and equipment having different income tax and accounting basis	\$ 24,622	\$ 16,858
Future site restoration costs	(1,007)	(796)
Share issuance costs	(199)	(265)
	\$ 23,416	\$ 15,797

Note 8**Commitments***Operating leases*

Real is committed to payments under operating leases for office space, computer hardware, software licence agreements and vehicles as follows:

2002	\$ 572
2003	160
2004	7
	\$ 739

Note 9**Financial instruments**

The carrying values of cash, accounts receivable, notes receivable, accounts payable and accrued liabilities approximate their fair value due to their demand nature or relatively short periods to maturity.

A substantial portion of the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of Real's oil, gas and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

At December 31, 2001 and 2000, all of the long term debt was floating rate debt and there were no material contracts or options in place to fix the interest rate on this debt.

The Company uses derivative financial instruments to manage its foreign currency and commodity price exposure. These financial instruments are entered into for hedging purposes only. Real would have received \$1,978,000 to settle the outstanding contracts for derivative financial instruments based on the estimated market values as at December 31, 2001.

Swaps

Volume	WTI Price	Term
100 barrels per day	U.S.\$27.40	July 1, 2001 to June 30, 2002
300 barrels per day	U.S.\$25.02	January 1, 2002 to December 31, 2002

Put options – gas

Volume	AECO Price	Term
7,000 gigajoules per day	Cdn\$3.00	November 1, 2001 to March 31, 2002

Put options – oil

Volume	WTI Price	Term
700 barrels per day	U.S.\$21.00	July 1, 2001 to June 30, 2002

Collars

Volume	WTI Price	Term
100 barrels per day	U.S.\$25.00 to U.S.\$29.50	July 1, 2001 to June 30, 2002
300 barrels per day	U.S.\$23.00 to U.S.\$26.80	January 1, 2002 to December 31, 2002
300 barrels per day	U.S.\$20.00 to U.S.\$23.05	February 1, 2002 to December 31, 2002

Foreign exchange forward contracts

Amount	Rate	Term
U.S. \$5.3 million	U.S.\$1.00 = Cdn \$1.572	January 1, 2002 to December 31, 2002

The cornerstone of the Company's continued growth is represented through the work ethic and enthusiasm of Real's team. We thank each individual for their innovation and ongoing commitment.



Background left to right: *Frank Muller – V. P. Exploration, Sig Slotboom – V. P. Production and Engineering, Pamela Orr – V. P. Finance & Chief Financial Officer, Larry Green – Land Manager.*
 Foreground left to right: *Ken Murphy – Executive Vice President, Clay Curry – Field Superintendent, Lowell Jackson – President and Chief Executive Officer.*

Greg Anderson

Renee Arseneau

Linda Boyd

Jane Brezinski

Brenda Brown

Veda Burby

Paul Case

Tom Charuk

Gordie Crowell

Clay Curry

Lee Davis

Colin Flanagan

Mark Gray

Larry Green

Dolores Grzelak

Dale Hoff

Denise Hyslop

Jennifer Illaszewicz

Lowell Jackson

Kathy Kerby

Bob Lagimodiere

Allan Larson

Fred Laudel

Jane Mallen

Terry MacGillivray

Steve Marston

Erin McKee

Lesley Miller

Frank Muller

Ken Murphy

Lyle Nakaska

Pamela Orr

Dave Quigley

Laurie Rezanoff

Daryll Robinson

Sig Slotboom

Roy Taylor

Veera Wiber

Zofia Wojcicka

Corporate Office

Suite 700
555 Fourth Avenue S.W.
Calgary, Alberta
T2P 3E7
Telephone: (403) 262-9077
Facsimile: (403) 262-6403

Directors

Martin G. Abbott⁽²⁾

D. Nolan Blades^(2, 3)

Frans Burger^(1, 2)

Dallas L. Droppo, Q.C.⁽¹⁾

Lowell E. Jackson^(2, 4)

Officers

Lowell E. Jackson, P.Eng.,
President & Chief Executive Officer

Ken P. Murphy, P.Land,
Executive Vice President

Frank P. Muller, P.Geol.,
Vice President Exploration

Pamela J. Orr, C.A., C.FA.,
Vice President Finance & Chief Financial Officer

Sig G. Slotboom, P.Eng.,
Vice President Production & Engineering

Dallas L. Droppo, Q.C.,
Secretary

Web Site

www.realres.com

e-mail

investor@realres.com

Legal Counsel

Blake, Cassels & Graydon LLP

Banker

Bank of Montreal

Registrar and Transfer Agent

Computershare Investor Services Inc.

Auditors

PricewaterhouseCoopers LLP

Reserve Consultants

Paddock, Lindstrom & Associates Ltd.

Stock Exchange

The Toronto Stock Exchange
Trading Symbol: *RER*

Committees

Audit Committee (1)
Compensation Committee (2)
Reserve Audit Committee (3)
Environmental, Health & Safety Committee (4)

Real Resources Inc.
2001 Annual Report

